

Impact of Economic Liberalization in Nepal - A Case of Industrial Growth in the Operating Industries in Butwal

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Abstract

The economic liberalization can contribute in the economic growth of a country. So, Nepal has been following the policy of economic liberalization since the mid-1980s which was accelerated with the start of 1990s. The study was conducted to identify the impact of economic liberalization on economic growth of industries running in the Butwal area of Nepal. The study had selected 385 respondents from industry, trade and banking sectors. The simple random sampling technique was used to select the respondents. Statistical analysis was done to see the relationship between the respondents. The result shows that there was significant association between the respondents (industrialists, traders, and bankers) in effectiveness of economic liberalization because the p value was less than .05 significant levels. Some of the economic indicators were not changed significantly so future researcher can study on the challenges in effective implementation of economic liberalization in Nepal.

Keywords: Economic growth, Industry, Impact, Liberalization

Introduction

Liberalization is considered by a number of researchers as a prerequisite for overall development, a progress of the society, and the growth of its productive forces (Bumann, Hermes, & Lensik, 2013), (Carrieri, Chaieb, & Errunza, 2013). During the 1980s and 1990s, many developing countries (DCs) have been engaged in far-reaching reforms of their financial systems by liberalizing and making them more market-oriented. This liberalization, involving inter alia ‘financial de-repression’ has been inspired partly by the work of the McKinnon (1973) and Shaw (1973) (M-S) school (Singh, 1997). Among South Asian countries, Nepal has also liberalized most extensively during the 1980s and 1990s on both fronts, domestic and external (Pyakuryal, Thapa, & Roy, 2005).

Economic liberalization and neo-liberalism have been the dominant policy paradigm since the 1970s until the global financial crisis of 2007-08. Based on the Washington consensus, the policy of economic liberalization spread into the developing countries with the help of multilateral institutions like the International Monetary Fund (IMF) and the World Bank. The policy of economic liberalization advocates lowering the role of the government in the economy and increasing the role of the market. It includes trade liberalization, financial liberalization and deregulation in the economy (Shrestha, 2017). The economic liberalization can contribute in the economic growth of country. It is stated that “An economy can be considered to be performing well if it has sustained productivity growth and a stable or rising employment/population ratio” (Ocampo, Rada, & Taylor, 2009). So, government should focus on the sustainable growth of national economy. The previous studies also show that there was positive impact on the economy through economic, financial and trade liberalization. A study of Bangladesh shows that greater openness had a favorable effect on economic development. Both real export and imports had increased with greater openness. Liberalization policy certainly improved export of the country which eventually lead higher economic growth after 1990s (Manni & Afzal, 2012).

Salinas and Aksoy (2006), carried out the empirical study on impact of trade liberalization on growth by using cross country regression analysis of 36 developing countries. The impact of trade liberalization is found most significant in the small countries. Whereas, Igweike (2012) examined the impact of trade liberalization on economic growth of Nigeria and examined the separate effects of shocks (Export and Import) on economic growth under trade openness. The estimated regression results show that trade openness has not had a positive impact on the Nigerian economy. However, although aggressively liberalized, on overall trade front in Nepal, the World Bank estimates untapped export potential (missing exports) at around USD 9.2 billion, 12 times its actual annual merchandise exports (WB, Nepal Development Update, 2021).

Trade liberalization has positive correlation between export growth and GDP growth in countries with open trade (Edwards, 1998). In the case of Nepal, in the 1990s, there was open development policy debate on how to develop the country with higher economic growth and how to tackle major economic issues such as unemployment and poverty under resource constraint. Behind this development thinking, there was the expectation of the people and problem of critical subsistence households. As its economic cure, Nepal adopted economic liberalization for minimizing public expenditure burden of lost public enterprises, mobilizing private savings and investments as well as FDI and meeting Multilateral Donors condition of economic reform (Bista, 2017).

Research carried out by Sharma and Bajracharya (1996) on impact of economic liberalization in Nepal during the time of 1974/75 to 1994/95 showed that there was increment in number of industries after the initiation of more liberalized policy. The scenario however, was changed and deceleration was noticed after the mid-term election in 1994 and minority short-lived rule by United Marxist Leninist Party (Pyakuryal, 1995). During the period of observation (before election), the study showed that these reforms have been highly helpful in improving trade performance. In addition, there was higher growth rate of export than growth rate of import in the post liberalization period (Sharma & Bajracharya, 1996). To understand the economic recovery, liberalization of internal and external trade and greater reliance on market forces have been accorded high priority in the policy agenda. Trade openness has been regarded as one of the important factors to determine economic growth. International trade openness has important role in the growth process of both developed and developing countries. It was reported that trade openness is positive for all variables except trade balance. Volume of trade liberalization of imports and exports mostly services exports were increased significantly (Khadka, 2019). Most of the previous literatures have shown the positive impact of economic liberalization on economic growth of country so considering these facts, the study was conducted to identify the impact of economic liberalization on economic growth of industries.

Materials & Methods

The study had followed the quantitative design because it had administered the structured questionnaire survey and collected data was statistically analyzed. It was cross-sectional study so the data was collected from the one-time field visit. The study was conducted in Butwal areas of Province 5 of Nepal. The primary respondents were the industrialists, traders and bankers. The total sample size was 385 which was calculated by considering the 95% confidence interval, 5% margin of error, and 50% estimated prevalence. The study had prepared the self-reported instrument based on the review of related literatures. Five points Likert's scale was used to measure the perception of respondents. The reliability of data was checked by analysis of Cronbach's Alpha test. The statistical value of Cronbach's Alpha test was .893 (89.3%) which is known as the excellent reliability of data. The frequency table, mean and Chi-square test was run to analyze the data.

Result & Discussion

1. Impact of economic liberalization on economic growth

It was very important to know the impact of economic liberalization on economic growth in Nepal. To know this, researcher discussed with the respondents based on the survey questionnaires. Table 1 shows the impact of economic liberalization on economic growth. It showed that maximum respondents agreed with possibility of transformation from monopoly market to perfect market (61.8%) with mean of 3.8649. While most of the people disagreed with expansion of business in international market after implementation of economic liberalization (46.2%) with mean of 2.7273.

Table 1: Impact of economic liberalization on economic growth

Statement	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean
In economic liberalization, there is possibility of transformation from monopoly market to perfect market		3.9	20.0	61.8	14.3	3.8649
Economic liberalization encourages laissez-faire approach to economic activity	.3	4.9	32.5	51.7	10.6	3.6753
Market-oriented policy reforms would spur growth and accelerate poverty reduction	.5	15.8	25.7	46.2	11.7	3.5273
trade liberalization will raise the growth of exports and imports	.5	12.2	22.1	54.5	10.6	3.6260
Economic liberalization has promoted privatization	.5	7.5	28.6	49.9	13.5	3.6831
There is positive impact of economic liberalization in my industrial development.	.3	20.3	28.1	47.0	4.4	3.3506
Economic status of my industry is become better after implementation of economic liberalization.	.8	25.7	29.9	40.0	3.6	3.2000
I have expanded my business in international market after implementation of economic liberalization.	7.0	46.2	17.7	25.2	3.9	2.7273
I have adopted the global best practices along with management and motivation of the best human talent to increase the profit of industry	3.9	27.3	24.7	37.9	6.2	3.1532

Source: Field Survey, 2020

It can be interpreted from above table that most of the people agreed with the statement. Most of the people agreed (54.5%) with the statement of trade liberalization would raise the growth of exports and imports. While few of the people strongly disagreed with the statement (0.3%) with mean of 3.6260. Similarly, mean was least for the people who have expanded their business in international market after implementation of economic liberalization (2.7273). It was seen that most of the people disagreed (46.2%) with the statement. While, about 25.2% of people agreed with the statement.

Moreover, maximum percentage of respondents agreed (61.8%) with the statement that due to economic liberalization, there is possibility of transformation from monopoly market to perfect market while least people disagreed (3.9%) with the statement with 3.8649. In addition, about (14.3%) of the people strongly agreed with the statement. Similarly, most of the people agreed (51.7%) to the statement of economic liberalization encourage laissez-faire approach to economic activity while 32.5% were neutral with the statement.

About 46.2% people agreed with the statement of market-oriented policy reforms would spur growth and accelerate poverty reduction with the mean value of 3.5273. While least percentage of people strongly disagreed with the statement (0.5%). Apart from this, 15.8% of people disagreed with the given statement while 25.7% were neutral and 11.7% of the people strongly agreed with the statement. Moreover, 49.9% of the people were agreed with the statement of economic liberalization has promoted privatization with mean value of 3.6831. It was seen that 13.5% of the people were strongly agreed and 7.5% disagreed the statement.

In overall, most of the people agreed with the positive impact of economic liberalization in their industrial development, economic status of their industry is become well after implementation of economic liberalization, adopted the global best practices along with management and motivation of the best human talent to increase the profit of industry.

2. Effectiveness of Economic Liberalization

Economic liberalization means a country opening up to the rest of the world in terms of taxation, trade, regulations, and other areas that affect business of the country. Economic liberalization in emerging markets provides different opportunities for the investors in order to increase their profit and diversification. Government can determine to what amount a country is economically liberalized. It helps to find easiness to invest and do business with that country. Most of the developed countries have gone through liberalization process and emerging countries need to undergo series of changes. For developing countries, it is beneficial and likeable proves for developing countries. The aim of economic liberalization is to have free capital flowing into and out of the country, which help to boost economic growth and efficiency. It is seen that most of the countries after economic liberalization has been boosted politically from the stability incurred from foreign investment (Gulaliyev, et al., 2016).

It was very important to know the effectiveness of economic liberalization. Researcher put forwarded different sets of questionnaires to know about effectiveness. The data presented in Table 2 shows the effectiveness of economic liberalization. It shows that there was moderate role (63.1%) of economic liberalization. This was followed by very effective role (30.6%) and no effective role (3.1%).

Table 2: Effectiveness of Economic Liberalization

	Types of respondents	Total
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		Industrialist	Trader	Banker	
Effectiveness	Very Effective Role	19.5%	30.7%	75.0%	30.6%
	Moderate Role	72.7%	63.6%	21.9%	63.1%
	No Effective Role	7.8%	5.8%	3.1%	6.2%
Total		100.0%	100.0%	100.0%	100.0%
Chi-Square Tests					
		Value	df	Asymp. Sig. (2-sided)	
Pearson Chi-Square		37.258 ^a	4	.000	
a. 1 cells (11.1%) have expected count less than 5. The minimum expected count is 1.99.					

Source: Field Survey, 2020

It can be interpreted from above table that out of total respondents (30.6%), about 75.0% banker believed that there was very effective role in effectiveness of economic liberalization followed by trader (30.7%) and industrialist (19.5%). Similarly, most of the respondents believed that there was moderate role (63.1%) of economic liberalization. Out of them, majority of the industrialist (72.7%) agreed with the statement followed by trader (63.6%) and banker (21.9%) respectively.

However, some of the respondents felt that there was no effective role of economic liberalization. Out of them, about 7.8% of industrialist, 5.8% trader and 3.1% of banker agreed with the statement. Moreover, from Pearson Chi-Square test, it was seen that there was significant relationship between the effectiveness of economic liberalization as the p-value was 0.000 which is less than 0.05.

Conclusion

The study had discussed on the nine points which described about the impact of economic liberalization on economic development. Comparatively, higher number of respondents agreed (61.8%) with the statement that due to economic liberalization, there is possibility of transformation from monopoly market to perfect market with the statement with 3.8649. Whereas, mean was least for the people who have expanded their business in international market after implementation of economic liberalization (2.7273). The result indicates that there was least effect of economic liberalization on the expansion of business in the international market. Though, in general, majority of respondents accepted the effectiveness of economic liberalization on economic development. There was significant association between the respondents (industrialists, traders, and bankers) in effectiveness of economic liberalization because the p value was less than .05 significant levels. Some of the economic indicators were not changed significantly so future researcher can study on the challenges in effective implementation of economic liberalization in Nepal.

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